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FEDS Field Report 2
June 1970

PROGRAM BUDGETING
IN
THE MINISTRY OF FOOD AND AGRICULTURE
OF
HIS MAJESTY'S GOVERNMENT OF NEPAL

BY
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U.S. DEPARTMENT OF AGRICULTURE
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Summary

This report deals with the financial and program management system of His Majesty's Government of Nepal (HMG) Ministry of Food and Agriculture, both its internal management techniques and, to some degree, its relationships with the Finance Ministry. The original request called for an advisor to study their system for programming and allocation of resources. Shortly after arrival the scope was expanded to encompass the broader aspects of program management, including budgeting and execution techniques.

Program budgeting is one aspect of the overall management system. Therefore, if changes in the budgetary system are to lead to improvements of administrative techniques, they will have to be matched by companion changes in the other elements of the entire system - the execution and implementation phases.

Initial consideration was given to budgeting techniques recently inaugurated within HMG and, particularly, the Ministry of Food and Agriculture. I felt that the systematic evaluative approach underlying the program budgeting system (PBS) was sound and, with continued sympathetic support of key officials and provision of training to the participating officials, objectives would be achieved.

This new budgetary technique was imposed upon an existing management and administrative system which reflects the traditional society's bureaucratic outlook characterized by an overconcern for propriety of expenditure and the motto "Thou shalt not spend." Major changes in these bureaucratic attitudes, habits, practices, and procedures are essential; otherwise, development efforts and project objectives will continue to be frustrated by administrative bottlenecks.

Several recommendations were submitted to improve the design and operation of the program planning and budgeting system. One of the objectives of the PBS is to assist responsible operating officials in making choices and decisions among alternative methods of achieving governmental development objectives. To attempt to achieve this objective, officials should be able to review program proposals in terms of purposes and objectives. The current budget category structure identifies choices primarily in organizational terms (departments, farms, and stations, corporations, etc.). I suggested that the budget be developed and considered in terms of projects which are more descriptive of the Ministry's program objectives.

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the project.

the Ministry is unable to control this process. No effort is made to influence department requests to reflect changes in agricultural sector objectives or success in achieving established targets.

I feel that correction of this leadership vacuum at the Ministry level might be the single most effective recommendation for improving the HMG performance in the program implementation phase. I strongly recommend that the Secretary be provided limited authority to shift between agricultural program categories in response to overall sectoral changes or progress performance. This would necessitate providing him with staff to review and relate physical and fiscal requirements in the implementation of approved programs. The recommended authority could be the same as that previously delegated to the department heads but subsequently withdrawn last year.

By providing the Secretary authority to positively affect programs within the Ministry, a discipline and incentive for more positive program performance is established within the departments and other elements of the Ministry. Furthermore, we would establish a more effective counter-force within the Ministry, one which could deal with the Finance Ministry on a peer relationship basis.

The report includes other recommendations which might simplify and improve this element of program implementation, but responsibility for carrying out the recommendations rests outside the Ministry of Food and Agriculture. The problems they relate to are probably applicable to other Ministry programs, however, and therefore should be considered on a government-wide basis operation.

Introduction and Purpose

The request for a program budget advisor stated that His Majesty's Government of Nepal was preparing its FY 71 budget using a program budget system. Agriculture being a high priority program, the Food and Agriculture Ministry was one of the first to receive attention in terms of improved budgeting concepts. The system undertaken required officials to identify and analyze their organizational goals and the means of achieving them. By this emphasis on objectives of Government, they hoped to highlight the interrelationship between various program activities.

After preliminary discussions with representatives of HMG and USAID, it became apparent that the scope of the assignment would have to be broadened to encompass the entire budgeting process. Accordingly, this report will deal with various aspects of program and financial management, including program budgeting, budget execution, and elements of budgetary reporting and accounting. In addition, I will attempt to focus on various organizational relationships which may be the key to improving Ministry performance in achieving the targets and goals outlined in the Development Plan and annual budgets.

A suggested program structure outline was developed which attempted to group activities in more output-oriented categories. While program descriptions in themselves will not lead to a better quality of decision, they can facilitate the process by allowing program officials to focus on problem areas and choices to be made.

In addition to refining program description, the report suggests that the PBS time dimension be expanded. Current techniques concentrate primarily on an annual budget. The system recognizes that budgeting decisions have an impact on future years' programs by requiring subsequent year projection of costs. However, these data aren't handled in a systematic manner and inadequate consideration is given to their longer range impact on budgetary decisions. Once made, programs create demands on future years' resources.

All responsible officials should take these future impacts into consideration when making planning and programming decisions. I recommended that multi-year programs be prepared and reviewed as a part of the annual budget process. As a result, the budget will have a closer tie-in to the multi-year development plans which, presumably, they are implementing.

Therefore, I concluded that the planning and budget system used by HMG was effective and, with certain changes in system design and techniques, could meet HMG objectives.

In considering the system for implementation of budgetary decisions, it is felt that some basic organizational and attitudinal changes are required. It became apparent that both budget and development plan decisions are being stymied by a management system which is more concerned with propriety than purpose of expenditure. Program objectives are not met because of inability to obtain timely release of monies or necessary degree of concern with achieving established targets.

Many factors are responsible for not getting the job done: Overconcern with propriety of expenditure; procedural delays within the Ministry of Food and Agriculture, the Finance Ministry, other elements of HMG, and foreign aid donor organizations; and excessive demands of the accounting and reporting system. However, I feel that these are secondary.

The most critical problem is the lack of central direction and authority within the Ministry of Food and Agriculture during the budget implementation or execution phase. Authority appears to be centralized within the Finance Ministry and the Departments of HMG; they are responsible for preparation and submission of fund requests. Though submitted through the Ministry, no effort is exercised at this level to relate physical progress and financial requests. Apparently

Both administratively and academically, the budgeting process is traditionally divided into three phases: (a) the formulation phase, which deals with the planning decisions, consideration of alternatives, and finally the presentation of choice in the form of annual budgets to the decision making bodies; (b) the execution phase, which is concerned with the implementation of those program choices approved and (c) the accounting and reporting phase, which ensures that authorized programs are carried out within the intent of the approving bodies and furnishes management information on the effectiveness of program performance, which can be the basis for future program decisions. In actual performance of this process, each of these phases occurs simultaneously and mutually shapes program management and financial administration decisions.

In Nepal, recent efforts have focused on changing the techniques and dynamics of the formulation phases. Program execution and accounting and reporting techniques still reflect the traditional methods of operation which are primarily audit-oriented in practice and may tend to negate the effectiveness of the new disciplines being installed through the resource allocation process.

HMG budget is divided into two major categories of activities: Regular Budget, which largely covers the operations of the instruments of government, public safety, and defenses; and the Development Budget, concerned with the implementation of the Five Year Plan.

Not surprisingly, more than 95% of the current MFA budget was included under the Development Budget. Furthermore, more than 50% of this budget is supported by foreign aid assistance from various countries and international and private organizations. This outside source of financing adds additional complications to the task of program planning and budget implementation since each donor has established his own standards of program reporting and accountability for his increment of foreign aid. None, necessarily, are similar, thus creating additional difficulties for the HMG inadequately-trained accounting staff.

In requesting release of USAID funds, HMG is required to furnish copies of bank deposit slips showing that they have released the HMG share of the jointly-funded projects. In the past, USAID fund releases have been held up because of HMG failure to submit copies of the deposit slip, though funds had been available to the concerned department. This is not intended to reflect on any donor's existing requirement; rather, it is intended to highlight procedural problems which should be considered.

Recommendation 1. The HMG should attempt to establish a greater degree of uniformity in the procedure concerning the release and accounting of foreign aid funds.

While my efforts were limited to reviewing the operations of the Ministry of Food and Agriculture (MFA), its relationship with the Finance Ministry (FM) and donors (primarily USAID), I understand that the situations encountered may be equally applicable to other program ministries.

I met with various officials of the Finance Ministry, Ministry of Food and Agriculture, Ford Foundation Project Advisor, Federal Republic of Germany Technical Advisor to the HMG, and members of the USAID Mission staff. In addition, I had opportunities to visit various MFA field stations and farms in the Rampur District and in the Gandaki Development Project.

HMG Budgeting System

Last year (Nepalese FY 2026/2027 or U.S. FY 1968/69) HMG introduced a program budgeting system, hoping to use priorities in the process of resource allocation. The current budget was the first to be prepared under the new system. Annual budgets are intended to implement the HMG development plan. The Prime Minister, in his budget message to the Rastriya Panchayat (National Legislature) last June 30, 1969, announcing the introduction of the PBS, stated:

"Projects included in the development budget have been examined closely in order to determine their economic feasibility, the benefits that are likely to accrue to the nation, the administrative and technical capacity of the concerned departments to implement the projects, and the relationship of these projects with the priorities set forth in the Five Year Plan." 1/

Staffs were established in the Finance Ministry and other program ministries to provide the professional analytic capability necessary to undertake this changeover from budgetary consideration by items of expenditure to the more sophisticated decision making based upon purposes of government. Within the MFA, the Economic Analysis and Planning Division was established as a staff arm of the Secretary. Among other assigned functions, its responsibilities include developing and operating the program planning budgeting system for the MFA.

This new budgeting requirement was imposed upon an existing management and administrative system which reflects the traditional society's bureaucratic outlook characterized by an overconcern for propriety of expenditure and the motto "Thou shalt not spend." Major changes in these bureaucratic attitudes, habits, practices, and procedures are essential; otherwise, development efforts and project objectives will continue to be frustrated by administrative bottle-necks.

1/ Budget Speech of the Fiscal Year 1969-70 (unofficial translation).

and operational practices. At this time, HMG is in the process of preparing its second budget under this new system. Relatively few operating officials have a clear understanding of the techniques involved in this radical departure from their traditional methods. The system calls for re-orientation of budget structure so purposes of expenditure can be identified and related to the terms and objectives of the national development program. The basic instructions (see Exhibit 1 & 2) direct that budget projects be defined in terms consistent with development plan objectives.

The chief of the Economic Analysis and Planning Division is responsible for coordinating the agricultural sector of the development plan as well as the integrated Ministry budget submission. He reviews, coordinates, and analyzes the various department submissions and participates in the budget discussions held with the Finance Ministry to consider these proposals.

His staff probably includes the relatively few people who understand, or are conversant with, the purposes and techniques of program planning and annual budgeting in MFA. Department officials, many senior in service to this chief, generally know little of the system and are suspicious of it. They have ascribed failures to obtain requested budget increases to his inadequacies in presenting their case rather than their own inability to justify their program needs, establish priority of the project, and relate it to the national goals and objectives.

To ensure that this resentment and/or lack of knowledge on the part of the operating officials does not tend to sabotage this PBS, I propose the following:

Recommendation 2. The major department heads should be provided staff resources which will permit them to develop, operate, and understand the program budget system; and they should be exposed, as quickly as possible, to a training program familiarizing them with the objectives and techniques of resource allocation, benefit-cost analysis, and program evaluation.

Program Budget Categories

The PBS guidance instructions, Exhibits 1 and 2, recognize that the traditional budget structure could not be effectively utilized for planning and budgeting development-resources funds, manpower, materials, etc. The old structure primarily focused on organization and functions rather than problems to be solved by government. Relating the activities performed to the targets and objectives of the Development Plan would be difficult, if not impossible.

For this reason, program officials were asked to review their operations, identify objectives of their various programs, and de-

HMG operates its fiscal accounting and allotment (fund release) procedure on a disbursement basis. This creates added complications in the HMG method of handling unexpended balances at the close of the fiscal year. Authorizations-to-spend lapse, and previously approved and started, but unfinished, projects (primarily construction projects) must be re-authorized in the current year's budget.

Therefore, up through the closing days and months of the fiscal year, budgets must be adjusted and re-adjusted to ensure that unstarted or incompleated increments of projects are refinanced in the next fiscal year. This becomes a monumental task considering the reporting and communication difficulties existing in Nepal.

Furthermore, these problems further complicate the year-end procedures for accounting for unexpended balances designated "carry-over." This becomes a great source of frustration and irritation for both HMG and the foreign aid donor.

Previously, departments attempted to retain the unspent balances by establishing letters of credit in the names of contractors and suppliers or by making advances. This past fiscal year the Finance Ministry suddenly decided to reduce or eliminate these reserve accounts and withdraw the funds earmarked in these accounts. This created many operating program difficulties, especially where officials failed to re-request these funds within the current budget.

The problems of carryover are chronic and, as of the fourth quarter of this fiscal year, both HMG and USAID were still attempting to resolve and/or identify the redistribution of last year's unexpended funds. (In HMG, "carryover" refers to unexpended balances which are returned to that treasury and is completely the opposite of the U.S. interpretation, which identifies funds previously authorized and available for expenditure in subsequent years). Because of HMG difficulty in identifying and returning the USAID portion of the carryover, USAID has deemed it necessary to withhold some current year project fund releases.

MFA Program Budgeting System (PBS)

The current year's budget (2028//28) was developed and prepared under the newly inaugurated PBS. This presented an initial attempt to depart from traditional budgeting procedures in which departments were given their allowances and would then decide and justify the budget projects to be funded. Under the new system, resources are to be allocated on the basis of cost/benefit analysis and furtherance of goals and objectives detailed in the development plans.

This radical departure in program planning and annual budgeting must evolve gradually and be integrated into management techniques

Recommendation 4. Since the categories may not relate to the familiar budget head designation, it would be necessary to redistribute our program categories to the existing structure. This can be done by using a "reconciliation" table which redistributes categories of activities to budget heads as shown in Exhibit 4.

Multi-Year Program

The professed purpose of the PBS is to prepare budget requirements according to the objectives and priorities set forth in the new development plan. This purpose adds a necessary time dimension to budgetary considerations, one which represents a departure from the annual consideration of conventional budgeting. This added "horizontal" dimension is particularly advantageous in consideration of new program proposals which, in the past, may have been approved because of their initial low costs. Conversely, program officials have been unprepared to cope with the sizeable increase in necessary resources to fully implement programs which have succeeded in the pilot phases.

Futhermore, long term projects can be seriously hampered by short range planning, especially in such areas as a long-range agricultural research program and its impact on national development.

The current PBS attempts to identify long term costs and advantages of individual projects. However, the full costs and impacts of departmental programs are difficult to aggregate and assess. The resource allocation process should be able to relate to the multi-year period included in the development plans. By considering the cost and impact of projects before the budget period, future years programs can more easily be adjusted to reflect either annual gains or short falls in achieving the established targets and goals.

Recommendation 5. Program considerations should include several years beyond the budget year. A form similar to Exhibit 5 could be used in arraying program requirements over a longer time period.

Relating Financial and Personnel Needs

Along with funding, the resource allocation process must consider and plan for the necessary skilled personnel required to undertake and support the expanded activities envisioned under the national development programs. Since in Nepal, as in most developing nations, trained personnel is a critical, if not the most critical, resource deficiency, it is essential that programming for training be coordinated closely with the long range planning activities. Therefore,

velop indicators of work performed which could be related to the overall objectives. The intention was to provide operating officials with a method of concentrating on program outputs and directives . they achieved rather than inputs or resources used. Hopefully, with this emphasis, planners will be in a better position to make more rational decisions concerning the use of resources.

The system developed for the MFA attempts to identify indicators of output. However, I feel the overall description of categories of work still tends to identify activities in organizational/functional terms.

The present budget categorization does not facilitate analysis and comparison of alternate means of achieving goals or coordinating closely integrated program activities. This problem is further accentuated when we recognize that several ministries may be involved in similar and/or interrelated programs. Some of the areas that need to be more clearly defined are: agriculture and agro-business credit; water supply investments; production-oriented research; rural community development; etc.

In programming, the Ministry should be able to compare alternative methods of handling agricultural programs. For example, regional development is one of the highest priority projects within the MFA. Several techniques are being followed.

The Resettlement Corporation and the Gandaki Project under the Extension Department follow an integrated approach. Area development is attempted under the leadership of a single MFA organizational entity which is responsible for providing farmers all of the necessary services - loans, seeds, equipment, water extension advice, etc. Under the more traditional approach, the required services are provided by various Ministry departments, requiring a higher degree of external coordination.

Obviously, a properly constructed program category structure which highlights similar and related activities will not automatically provide the optimum choice, but it should facilitate the necessary analyses.

Recommendation 3. The program structure should be revised to reflect a more mission-oriented categorization of activities. Exhibit 3 is an illustrative example of the arrangement of program activities that might be considered for the MFA system (actual structure would require more detailed analysis than could be undertaken in this assignment).

as a necessary and concomitant consideration, each official should plan for and consider the availability of trained persons to carry out the programs envisioned over the longer time dimension.

Recommendation 6. The long range planning should indicate the increased personnel, with the nature of their skills, required to support proposed program requests.

Personnel staffing can similarly present difficulties and delays in implementing programs in the shorter run period. Under the PBS, budget requests must identify the additional manpower requirements, by number and categories, necessary to implement the project being considered in the budget year.

In HMG, personnel authorizations and classification of new positions are the responsibility of the Department of Administrative Management. This requires requesting officials to undertake separate hearings to obtain budgetary approval (from the Finance Ministry) and authorization to recruit and employ personnel necessary to carry out their programs. In many instances, programs have been delayed and targets missed because of the failure to obtain personnel authorization. It is essential that HMG ensure a closer coordination between the ministries responsible for reviewing financial and personnel requirements included in budgetary submissions.

Recommendation 7. Ministry of Finance and The Department of Administrative Management should coordinate their consideration of budget requests so that allowances issued to program ministries and departments include coordinated authorizations to spend monies and employ the necessary staff to carry out the projects.

We have tried to show that program planning and annual budgeting is a continuous process which must begin long before the actual budget year is underway. Since foreign assistance comprises such a large increment of the development budget, including agriculture, the various outside resources should be brought into the discussions and deliberations contributing to the scope and shape of the budgets as early as possible.

Recommendation 8. Project advisors should participate in the planning, submission, and revisions of the budget programs in the earliest stages. Though it is recognized that this involvement is not necessarily a commitment on the part of the donors, it can provide each an insight into the needs and resources of the other.

Program Execution and Reporting

In my initial discussion with the officials in HMG and USAID, it became quite apparent that the execution or implementation phase after passage of the budget by the Rastra Panchayat was an area of great concern. At times, the problems and techniques of getting programs funded, people paid, and contracts awarded resulted in monumental problems. On the basis of USAID experience, I estimate that 25-30% of approved project funds do not get spent. Spending, in itself, is not a criteria of successful program management; however, to the extent that program targets are not met, this becomes a serious indictment of the management system.

The HMG financial administration is based on a system of quarterly releases of monies for operating programs. These authorizations are in the form of funds actually released to the ministries and departments. Records and accounts are maintained on an actual disbursement basis. The fiscal technique results in a stress on the control of monies advanced and overly cautious review of utilization of funds previously released. Understandably, the system is completely oriented toward the traditional concern with control and audit.

A recently completed report discusses the accounting and reporting system used by HMG, and recommends changes that would facilitate the system for release and accounting of funds.^{2/} Inauguration of some of these proposals may be undertaken next fiscal year on a pilot basis in selected districts, although the Auditor General has so far successfully resisted this effort. If successful, and broadly implemented by HMG, it might be possible to propose revisions in the budgetary and funding system which could lessen the "heavy hand" of pre- and post-audit and control. Some of these will be discussed subsequently in this report.

In addition to various procedural changes, it appears that certain administrative delegations of responsibilities might also be considered to facilitate program administration within HMG. My review was primarily concerned with MFA and its dealings with the FM and USAID. However, I assume many of the situations are equally applicable to other HMG ministries.

Role of HMG Finance Ministry

The Finance Ministry assumes the key role in the process of financial management, which includes the budget formulation as well as execution phase. In this regard, its role can be compared to the

^{2/} Report in "Accounting and Reporting Systems of HMG of Nepal."
Floyd Could, USAID. September 11, 1969.

function performed by the U.S. Bureau of Budget (BOB). However, there are some significant differences. The BOB authorizes the spending of monies by the program agencies on an annual basis, subject to revision (which is rarely exercised). Furthermore, responsibility in the Bureau for the budget preparation and execution phases are closely coordinated, usually being performed by the same budget examiner. Within the FM, the responsibility for budget approval and subsequent release is given to separate units. The planning group section must concur in the budget request before the requested funds are released. However, their concurrence does not ensure the timely release of funds by the Budget Implementation and Control Division. Funds are released to the ministries and departments quarterly, after the submission of detailed reports on expenditures of monies released previously. These requests receive detailed examination and scrutiny for accuracy and propriety in preparation and conformance with the approved budget.

After the Budget and Implementation Section has acted upon the HMG portion of the project request, and other funds have been released for the project, the Foreign Aid Division of the FM is requested to obtain the matching foreign donor portion. Requests to the various divisions in the FM may be concurrent; however, the Foreign Aid Division awaits the action by the Budget Implementation Division.

Within this complicated bureaucratic network, there are many examples of requests being held up and not acted upon because of procedural discrepancies in the forms submitted. The reasons for delay are numerous. In some instances the requesting office may have automatically requested release of the subsequent quarter without taking into consideration unspent balances. The combination of over-concern with form, inadequately prepared requests, or just inexplicable stoppages has resulted in delays of several months in the release of quarterly operating funds.

This procedural breakdown becomes further complicated by the need to continually account for and distribute the previous year's unspent balances. Because of accounting difficulties and inadequacies, this problem becomes endless and will continue beyond the subsequent fiscal year, when the requirement of foreign donors is added to this already complex procedure. It is quite understandable that the inadequately trained and poorly paid accountants within HMG have difficulty coping with the requirements demanded of them.

The results of these funding delays are irreversible slippages in achieving established goals and targets. Greater attention to the orderly progress of these requests, identifying bottlenecks, and

remedying some of the problem situations would expedite the flow of quarterly allotments.

Recommendation 9. The MFA should assign positive responsibility for following up and checking on the status of releases of quarterly allotments. A suggested control system is attached as Exhibit 6. Unusual delays in the processing of requests through various steps should be the basis for immediate follow-up.

Budget Accounting and Reporting

The EMG accounting and reporting systems are maintained and reported on the basis of items of expenditures, including 12 major categories and 17 sub-items of expenditure (Exhibit 7 is a listing of the items used). These are basically measures of resource input. With the transition to the PBS, detailed accounting by these items may preclude the undertaking of meaningful accounting of costs in relation to program performance.

While it is recognized that input measures are necessary for analysis of the economic impact of government operations and review of the character of actual and planned purchases for programs, it is suggested that a reduction in the number of object class items might be undertaken. This could simplify existing accounting and permit a more meaningful form of program accounting.

Recommendation 10. As an initial step, the number of items of expenditure should be reduced to the following major categories or groups: Personal Services (pay and allowances); Maintenance and Other Operating Expenses (purchases and costs necessary for day to day operation); Equipment (non-expendable items); Construction and Purchase of Land or Buildings; Grants-in-Aid; and Unforeseen.

One major problem area in obtaining or meeting established targets has been the extremely complex task of designing and completing construction work. Much of this difficulty is compounded by the financial process which provides funding authority only for disbursements made during the year. Upon fiscal year expiration, all unspent monies revert to the Consolidated Working Fund, which is the treasury account from which releases to departments and ministries are made. As discussed earlier, this creates many program management difficulties for operating officials faced with the necessity of committing themselves to a purchase or contract whose completion extends beyond the close of the fiscal year.

Budgeting Capital Investment

Capital investment items, including major procurement and/or construction, by their nature, may involve periods extending beyond a single fiscal year for successful completion. Therefore, if HMC must continue to operate on an annual disbursement basis, it should make some other provision for the financing of these long-term expenditure items. This becomes especially critical when we recognize that development plans and targets are so greatly dependent upon the orderly completion of these extraordinary and non-recurring items of expenditures. It becomes exceedingly difficult to make up for delays encountered in these types of activities.

Recommendation 11. HMC should consider financing major capital investment projects, including construction of facilities on a no-year or multi-year basis. This would mean that monies appropriated for this purpose would remain available until the project is completed or expiration of the multi-year authorization period (e.g. authorized for three years from date of approval) has occurred.

Orderly time phasing and completion of construction, as well as better estimates of facility costs, might also be achieved if construction and design were performed in separate years. Too often, organizations begin planning and designing during the year of authorization and are unable to initiate or complete construction during the budget year.

Recommendation 12. With greater attention and emphasis on long range planning, it is recommended that ministries and departments consider their construction needs in the long run and be able to program for preparation of plans and specifications prior to actual approval of construction items.

MFA - Delegation of Authority

A review of the MFA techniques for program implementation, financial administration, and program evaluation showed that inadequate staff resources were available at the ministry level to adequately coordinate and evaluate departmental efforts. At present, requests for funds submitted through the Secretary's office are not reviewed in terms of targets accomplished. At best, they are given minimum review from a solely expenditure point of view. This procedure may be changed next year if the FM proposal to release funds directly to the concerned departments is implemented.

The current but inadequate procedure maintains the proper organizational relationships, even though requests do not receive adequate program analysis and evaluation in terms of program performance related to fiscal requirements. Elimination of even the minimal MFA level of involvement would be a step in the wrong direction.

One of the major weaknesses in the current operation is the relatively independent and uncoordinated operation by the department-level organizations. MFA is established as an integrated program serving the sectoral needs of the Nepalese people and Government. Accordingly, the Ministry program should be operated on a similar basis, and overall program direction should be exercised at the Ministry level.

In previous years, certain budgetary authorities were delegated to the department heads. They were permitted to shift funds between the budget sub-heads under their jurisdiction. However, this authority was withdrawn by the FM this year. To re-establish overall sectoral direction in conformance with the national planning objectives, it is suggested that positive action be taken to increase the MFA operating authority over the departmental programs.

Recommendation 13. One method of achieving a coordinated program and policy direction is to provide the MFA, with the Secretary as the chief operating official, authority to shift between budget sub-heads making up the Ministry program. The authority to be delegated may be equal to that previously exercised by the department heads, but withdrawn by the FM this year. 3/

MFA - Evaluation of Program Performance

This authority, with necessary staff resources and information reporting techniques, will provide the Secretary with a more effective means of obtaining coordinated program and operating control over the Ministry's activities.

Recommendation 14. For a more effective tool for evaluation of program performance, one which relates progress reporting and financial progress, the MFA should inaugurate a combined reporting system integrating information currently furnished separately on progress and expenditure reports. A suggested format is attached as exhibit No. 8. This form should support all quarterly requests for additional funds and might substitute for progress and expenditures now being submitted.

3/ Amend. to sec. 9 of the Fiscal Administration Regulation, 1969, as published in the Nepal Gazette, Vol. 19, No. 14 Extraordinary, July 26, 1969.

The staff resources required to undertake this added aspect of program management can logically be combined with the program planning and evaluation staff in the Economic Analysis and Planning Division. However, as constituted, this group combines staff and program responsibilities. We have dealt with the former in the earlier part of this report. The latter includes the MFA economic research activities, including such research programs as: farm management and production research; price analysis; marketing economics studies; etc. The need for this type of research is becoming increasingly critical and HMG activities in this direction will increase. I would anticipate that the dual responsibilities of this Division will tend to conflict as the director is required to serve both as a staff advisor to the Secretary in overall program planning and as a program operating official.

Therefore, it would seem logical to combine program planning and program implementation, which is a natural outgrowth of the operational evaluation responsibilities currently assigned into a single entity. This will also establish a focal point within the MFA able to deal with the various elements in the FM. This correlation of performance and fiscal evaluation should permit the restoration of confidence by the FM in the validity of MFA program and financial management, reports, and requests.

Recommendation 15. A new unit should be established reporting directly to the Secretary which would combine the program planning, budgeting, performance, evaluation, and financial analysis responsibilities. This group would work directly with the Finance Ministry on matters dealing with budget preparation and release of funds.

Clarification of Authorities, Delegations, etc.

Another problem encountered, perhaps typical of the traditional bureaucratic method of operation, is the lack of uniform understanding of existing delegation and authorities of operating officials. Failure to reproduce and widely disseminate copies of relevant laws, rules, regulations, and procedural manuals contributes to the confusion and lack of resolve to act on the part of the operating officials. These officials generally are more concerned about being held liable for violations of rules than program accomplishment. Examples of the interpretative problems created are:

- A. Conflict in budgetary delegation listed in the Fiscal Administration (see footnote 3) and the AID Administrative Standard Provision annex (part I), which authorizes the project director to shift funds between sub-activities.
- B. Determination whether HMG "carryover" limitations apply to funds furnished to government corporations.

Recommendation 16. Operating officials should be apprised of the sources of authoritative determination of rulings and interpretations, and that rulings and issuances be distributed in a prescribed and orderly fashion.

Future Program Assistance

HMC officials have accomplished a great deal in developing and initiating a program budgeting system. A good deal of additional training in the techniques of system analysis and program budgeting is obviously necessary, however. Continued emphasis and encouragement is necessary to facilitate the integration and understanding of the system in all levels of management.

If this process is to succeed, it must also be supported by the development of more sophisticated systems of evaluation of program implementation performance, accounting, and reporting. Several improvements in these areas are being considered for implementation in the immediate future. However, additional consideration may have to be given to integrating them with the needs of the PBS.

In view of these considerations, it will appear that HMC needs advice and assistance in developing an improved capability in program administration and management. Without this emphasis, the most sophisticated techniques and improvements become valueless.

It is my feeling that a budgeting advisor, Nepalese or foreign, who combines program planning, system design, and program operational experience may profitably be assigned to the MFA. He should expect to spend a good portion of his time in working with MFA in the program administration area to help instill a sense, an attitude, and motivation for achieving targets and goals. He could most effectively be assigned to the suggested newly constituted organization with the broadened responsibility for budgeting and program implementation.

If success can be achieved in improving the administrative efforts of the MFA, the program techniques might be applied to other ministries with similar planning and operational problems.

Exhibit No. 1*

ANNUAL DEVELOPMENT PROGRAM FORM FOR 2027/28

Interpretation and guidelines

Since it is not possible to rationally allocate and evaluate government expenditures in the context of planned economic development on the basis of traditional budgetary system, the Program Budgeting System was started from the FY 2026/27. The adoption of PBS has become all the more necessary for evaluation and designing of the annual programmes conforming to the objectives and targets set forth in the Plan. Change from one system to another must evolve gradually. Last year's experience in this respect is very encouraging and much more improvement in the system seems possible in the years to come. Its success depends to a great degree upon the initiative, understanding and cooperation of the various ministries and departments of HMG. It is therefore very important for them to understand the objectives of PBS and to prepare annual programs and budgets consistent with these objectives. The essence of PBS is to allocate annual development outlays in such a manner that they are consistent with the policies and priorities fixed by HMG and that they are in the interest of both long run and short run benefits. This requires a program oriented method of budget preparation and evaluation and implies a need for improvement in the budget structure first of all. It should be noted here that most of the expenditure items in our old development budget were not consistent with the specified programmes and objectives; for instance, most of the budget heads were not according to the programmes but according to the various organizations. But under the PBS, it is reversed in that it allocates expenditures to the specified programmes only after the receipt of programme outlines from the various departments. Programme Forms have been devised for this purpose.

In the Forms, description of each development programme being implemented/to be implemented/separately identifiable should be written. Development programme means the construction projects such as roads, irrigation, or development works like malaria eradication, adult education programme, family planning, livestock development, etc. It is necessary for each department to define the units of programme before starting to fill up the Forms. While defining a unit of programme

* Unofficial translation from Nepalese.

each department should identify its objectives and the group of works directly related to a particular objective. Having identified departmental objectives, a programme can be defined as a group of works which directly contributes to the fulfillment of an objective. Sometimes the department may be required to prepare a separate description for each component of the programme - "sub-programme" - using separate programme Forms for each component. There are as many different programmes undertaken as there are departments and their objectives. Each of the programmes may consist of sub-programmes. Details of each main programme and sub-programme should be completed in separate programme Forms as stated above, hence the elaboration of this point.

Every possible attempt should be made to give relevant statistics and information in support of each programme. Additional sheets, if needed, can be attached to the Form. Each question of the Form has been elaborated hereunder:

Programme Form No. 1: Summary of Annual Development Programmes

Each Department is required to return this Form summarizing details of individual programmes and projects submitted by various offices under the Department. In other words, this Form is the list of programmes under each Department. If the Form space is not sufficient to enlist all the programmes, additional sheets can be attached to it. After all the programme descriptions are filled up, Department should give total figure under each column except for columns 1 and 2.

Programme Form No. 2: Annual Development Programme Form

This Form requires description of each development programme being implemented and/or to be implemented by each Department under each Ministry. Separate Form for each individual programme should be used.

Serial No. 1:

Project Title: State title of the programme or of the project as defined earlier.

Serial No. 2:

Project Site: Mention name of the district and zone where it is being conducted/to be conducted. If it is country-wide, mention "Nepal". If it is limited to certain geographic region, identify accordingly: eastern Terai, mid-Terai, western Terzi, eastern hills, western hills, Kathmandu valley, etc.

Serial No. 3:

Current Status of the Project: Describe present position of the project as required by the Form. Here, "recurring project" means a project which may continue through unknown period of time.

Serial No. 4:

Date Project Started or to be Started: Indicate month and year the project was started. In case of a new project to be started, mention possible month and year.

Serial No. 5:

Estimated Date of Completion: Mention month and year the project will be completed. If the project is recurring one, mention accordingly.

Serial No. 6:

Estimated Life Period of the Project: For investment project such as roads, school buildings, irrigation, electricity generation, etc., estimate years of service the project will provide after its completion.

Serial No. 7:

Description of the Project: Describe nature and characteristics of the project and its physical and technical features.

Serial No. 8:

Importance of the Project: Describe in detail why the project was started or is to be started, its objectives and targets. While justifying its importance, give data of demand; for example, estimated consumption demand for power from the new electricity generating project, or the number of vehicles that will use newly constructed roads.

Serial No. 9:

Benefits from the Project: It is important to show the benefits from the project clearly and in quantitative terms as far as possible. Hence, the classification of the benefits in this Form. "Production" means production of both physical goods and services. There are several projects that provide services rather than physical goods. The volume of services should be shown under "Production"; for instance, production of the adult literacy programme can be expressed

in terms of number of adults being made literate. Indirect benefit of such programme can be further stated under (f) or (g). Similarly, the benefit from the road construction can be expressed in kilometers of road. Other benefits from such project should be written under (b), (c), (d), (e), (f), and (g). The benefits to be described under (b), (c), (d), and (e) are self-explanatory. If the project is of complementary nature, for instance, road construction project in certain region will contribute to the departmental or other development programmes of HMG after its completion, this should be described under (f). Benefits other than those described under items (a) - (f) can be stated under (g); for example, effect of a power project on the agricultural and industrial development of a particular geographic region. It should be especially noted that the benefits are shown in quantitative amounts and are described briefly and clearly.

Serial No. 10:

Expenditure of the Project: This means direct cost to complete or to implement the programme or the project. Care should be taken to include an estimate of annually recurring contingency expenditures to be incurred after completion of the project. Such estimate should include all such expenditures as repairs and maintenance, pay and allowance, travelling and daily allowances, purchase of non-durable goods, etc. Since the "total estimated expenditures to complete the project" and "annually recurring contingency expenditures" in respect of continuing projects is not possible to work out, they can be ignored for that matter; nonetheless, mention should be made accordingly. Revised estimate of expenditures for 1969/70 should be based on actual amount for the current year and expenditures likely to be incurred by the end of the fiscal year. Budget estimate should not be shown as revised estimate.

Serial No. 11:

Details of Expenditures: Revised estimate of 1969/70 under serial No. 10 and the estimate for 1970/71 should be shown separately as indicated in the Form. It will be easier to give details of expenditures because numbers of budget items are indicated therewith. "Current Grant" under "Grant" (Budget item No. 8) heading means recurring expenditures such as pay, allowances granted to bear current expenses, etc.; "Capital Grants" means those expenditures which are granted to purchase durable goods, to construct capital structure, or for improvement of capital assets.

Serial No. 12:

Targets and Progress of the Project: Describe achieved progress or the targets of the project in specified years under appropriate columns. Describe progress and targets directly concerned with the project and its objectives. Give progress and targets in quantity;

for example, kilometers of road constructed, number of hospital beds provided, number of nurses trained, number of exhibitions of improved agricultural methods held, number of soil samples surveyed, metric tons of improved seed distributed, hectares of land irrigated, hectares of forest conserved, number of trainees trained, etc. Each Department should decide beforehand as to how the programme can be expressed in quantitative terms and the progress and targets should be shown accordingly.

Serial No. 13:

Manpower: Under this Table, details of each category of employees and labourers directly involved in implementation of the project or programme should be given. Estimate should be made of the number of employees and labourers working at the end of Ashad, 2027 and the number of employees to be added during the FY 1970/71. Category of employees and labourers whether "administrative", "technical" or "other" should be identified by the Department itself. "Technical" employees can be further identified as engineer, machine operator, surveyor, agriculture technicians, agriculture extension workers, primary school teacher, nurse, etc.

Serial No. 14:

Difficulties: Fully describe possible difficulties to be encountered in course of project implementation and suggest solutions.

Serial No. 15:

Other Remarks: Mention any other opinion. Also mention if other project or programme under the same Department or outside is needed to make the project a success.

श्री १ को सरकार
आर्थिक वर्ष २०६०-७८ को
वार्षिक विकास कार्यक्रम कार्याय
Annual Development Program Form FY 1970/71

वार्षिक
कार्याय नं. २
Form No. 2

Ministry मन्त्रालय Department विभाग Divn. Office कार्यालय : अंग्रेजी	Prepared by तैयार गर्ने Approved by स्वीकृत गर्ने Date मिति
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(Project Name)

१. आयोजनाको नाम:

(Project Location)

२. आयोजनाको स्थान:

(Present status of the project)

३. आयोजनाको वर्तमान स्थिति:

(क) नयाँ सुरु गर्नुपर्ने ☐ (to be started a new)

(ख) सुरु गरिएको तर पूरा नभएको ☐ (to be completed)

(ग) पूरा भएको ☐ (completed)

(घ) बारम्बारको भन्नु रहने ☐ (Recurring)

४. सुरु भएको (वा हुने मिति): (Date started/to be started)

५. पूरा हुने अनुमानित मिति: (Estimated date of completion)

६. आयोजनाको अनुमानित आयु (पूरा भइसके पछि आयोजना कति वर्ष सम्म काम चिन योग्य हुन्छ उल्लेख गर्नु होस्): (Estimated life of the Project)

७. आयोजनाको विवरण (यसको प्रकारको आयोजना हो र यसको बाहिरी र आन्तरिक विशेषताहरू के हुन् दिनुपर्ने विवरण दिनु होस्):

(Project Detail (Describe in detail as to the kind of Project, its physical & technical features):

८. आयोजनाको आवश्यकता (यदि यहाँ आयोजना शुरू गर्ने लागेको हो भने यस आयोजनाको आवश्यकता किन बढ्यो र कुन उद्देश्यको पूर्तिको लागि यस आयोजना शुरू गर्ने लागिएको हो विस्तृत विवरण दिनुहोस्। यदि शुरू भइसकेको आयोजना हो भने यदि कुन काम वा उद्देश्यको पूर्तिको लागि शुरू गरिएको हो सो सुनाउनु होस्) :

Importance of the Project (If it is a new project why it is so needed and what are the objectives it will fulfill ? If it is a running project, state why the project was started and what were the objectives):

९. आयोजनाबाट हुने फाइदा (आयोजनाबाट हुने विभिन्न फाइदाहरू कतिपय अनुसार सुटकाद्वारा सचमर परिमाण लेखी उल्लेख गर्नु होस्, यस्तै) :

Benefits from the Project (put down in quality as far as possible as:

(क) उत्पादन (a) Production

(ख) रोजगारी (Employment)

१. आयोजना निर्माणको समयमा 1. During Project Construction

२. आयोजना पूरा भइसकेपछि 2. After completion

(ग) विदेशी मुद्राको लाभ (c) Foreign Exchange Earning

१. आयात कम भएपछि 1. Due to Import Reduction

२. निर्यात बृद्धि भएपछि 2. Due to Export increase

(घ) राजस्वमा बृद्धि (d) Increase in Revenue

(ङ) स्थानीय वस्तु तथा सामानको उपयोग (e) Utilization of indigenous materials or resources

(घ) आयोजना द्वारा भएरक विभागीय बा ची ५ को सरकारका अन्य विकास कार्यसम्पन्न हुने भए

How far complementary to the other projects of the Department itself or of HMD's other projects

(ड) अन्य लाभहरू

Other benefits

१०. आयोजनाको कार्य:

Project Expenditure

	जम्मा कार्य (घ) Total Expenditure (Rs.)
(क) आयोजना द्वारा गर्न लाग्ने सम्पूर्ण अनुमानित कार्य	(a) Total estimated expenditure to complete the Proj.
(ख) २०२६ आषाढ असारसम्मको कार्य	(b) Expenditure upto 1969 July (Ashad)
(ग) २०२६-२७ को संशोधित अनुमान	(Rev. Estimate of 1969-70)
(घ) २०२७-२८ को अनुमान	(d) Estimate of 1970/71
(ङ) आयोजना द्वारा भए पनि पूरे लाग्नेवाला कार्य	(e) Annual Recurring Exp. after completion of the Project.

११. व्ययको विवरण:

Details of Expenditure

व्ययको विवरण ^१ Type of Expenditure ^१	२०२६-२७को संशोधित अनुमान (घ)	२०२७-२८ को अनुमान (घ)
१. वर्तमान व्यय (१,२,३,४,५,६ र ७) Current Exp. (1,2,3,4,5,6, & 7)	Revised Est. of 1969	Est. of Rs. 1970/71
२. पूँजीगत व्यय Capital Expenditure		
क. लामो मालसामान (१०) Durable (10) ...		
ख. जग्गा र भवन खरिद (११) Land & Bldg.		
ग. निर्माण र सुधार (१२) ... purchase (11) Construction & Improvement		
अनुदान (८) Grants		
क. वर्तमान अनुदान Current Grant ...		
ख. पूँजीगत अनुदान Capital Grant. ...		
जम्मा Total		

^१ कोडिफाइड रेटिफा अंक एन्ड कोडिफाईड फन सेटमा हो। कोडिफाईड रेटिफा अंक अर्थ सम्बन्धितहरूको लागि "कोडिफाईड रेटिफा अंक रेटिफाईड" प्रयोग गर्नुहोस्।

^१ Numbers in parenthesis indicate budget heads. Consult 'Classification of Budget Expenditures Items' published by Finance Ministry before filling this forms.

Manpower (Additional number of staff & labourers required by type)

Type of employees

Employees upto 1970 mid-July

Additional employees
required for 1970/71

१४. आपा कठिनाईको विचार (यस आयोजनाका मुल्य गर्न वा मुल्य माफसि सम्बन्धित सरकारीबाट प्राप्त गर्न माफसि वा माफसि प्रशासनिक, संरचनात्मक, वा अन्य कठिनाई वा कठिनाईहरू स्पष्ट तथा चिन्तित सबैबाट उल्लेख गर्नुहोस् र यी कठिनाईहरूको समाधान कसरी गर्न सकिन्छ सुझाव दिनुहोस्):

Difficulties (What are the difficulties that are likely to come about to complete the project or what were the difficulties - administrative, organisational, or others - faced after completion of the project. Also suggest solutions to the problems):

१५. अन्य कुराहरू (आयोजनाको सम्बन्धमा अन्य कुनै मतलब छ भने सो उल्लेख गर्नुहोस्):

Other Other Remarks (Give any other opinion concerning the Project):

CIRCULAR NO. 2

ANNUAL DEVELOPMENT PROGRAM BUDGETING AND
DEVELOPMENT BUDGET ESTIMATE FOR 2027/28 (1969/70)

According to the decision of HMG to prepare development budget estimates strictly on the basis of economic analysis of the development programmes, the Programme Budgeting System was introduced in FY 2026/27 (1968/69). With the introduction of the system, it has become easier to allocate development expenditures rationally and to move the development works ahead in accordance with the priorities and objectives of the Plan. Cooperation extended by all the departments in the operation of this system was no less important. The Finance Ministry hopes that the same kind of cooperation from all the departments will continue in the preparation of development programmes and the budget for FY 2027/28 (1969/70).

Some revisions have been made in the Programme Budget Form with the experience of 2026/27 (1968/69). It is hoped that these Forms will help departments present the facts concerned with the programmes much more clearly.

Since the FY 2027/28 (1969/70) will be the first year of the Fourth Plan, the departments should prepare their development programmes according to the objectives and priorities set forth in the Fourth Plan.

OBJECTIVES OF THE FOURTH PLAN

1. To prepare conditions conducive to the creation of exploitationless society;
2. To maximise national production during the Fourth Plan period with a view to provide minimum consumption needs as well as to build infrastructure basic to the sustained growth in the long-run. To attain this objective:
 - a. more internal resources will be mobilized;

* Unofficial translation from Nepalese.

- b. economic benefit from the development expenditures will be stressed;
 - c. development efforts will be concentrated, for which:
 - (1) efforts shall be concentrated to the maximum benefit yielding sectors by maximum utilization of available resources;
 - (2) growing points in the selected geographical regions will be created; and
 - d. investment in private sectors will be encouraged.
3. To regulate price and international trade as well as stabilize economy;
 4. To expand and diversify international trade of Nepal;
 5. To utilize manpower to the maximum possible extent and control population growth rate in the future.

Above objectives have been elaborately explained in Chapter III of Preliminary Draft of the Fourth Plan published by National Planning Commission in Fagoon, (Feb/Mar), 2025.

It should be noted here that the merits of all the programmes for 2027/28 submitted by the departments shall be judged against the above mentioned objectives and priorities. In designing the current programmes or new ones, each ministry and department must be sure that they conform to these objectives. The Finance Ministry, therefore, requests them to tailor their current programmes to the needs of the Fourth Plan objectives.

Enclosed herewith are the appropriate Forms and the explanatory notes. There are two kinds of Forms: (1) Summary of Development Programs (Prog. Form No. 1), and (2) Development Programme Form (Prog. Form No. 2). Before starting with the Forms, explanatory notes should be carefully read and the Forms should be filled up in accordance with the guidelines. One copy each of the completed Forms must reach the Finance Ministry on or before the end of Jan/Feb, 2026. Each ministry should submit the completed Forms along with one organization chart with appropriate description showing location of responsibilities for carrying out programmes by subordinate departments, divisions, sections and field offices. Upon receipt of the Forms, the Finance Ministry will scrutinize them all through the month of Feb/Mar, discussing over all details of programmes with each department of the concerned ministry. Once the programmes are finalized thus, the Finance Ministry will issue instructions by 15 Mar/June, 2026 to the ministries to prepare Development Budget for 2027/28.

During Marga and Poush of 2026 (November-mid-January) the Finance Ministry will also discuss with various departments about the guidelines given in the Programme Forms and the policies regarding development programmes for 2027/28.

The budget estimate for the development projects of 2027/28 (1969/70) as approved by the Finance Ministry, and the estimated balance of the project expenditures up to the end of June/July 2027, should reach BIC Section on or before 15 April/May 2027 and on or before the end of April/May 2027 respectively. Sections 4,5,6, and 8 of the Budget Circular No. 1 will be applicable to this Circular too.

Lastly, it should be noted that the completed development programme Forms are duly approved by the Secretary of the concerned ministry before they are submitted to the Finance Ministry.

Finance Ministry

Marg 2026

SUGGESTED PROGRAM STRUCTURE FOR
HMG MINISTRY OF FOOD AND AGRICULTURE BUDGET

<u>CATEGORY</u>	<u>OUTPUTS</u>	<u>HMG ACTIVITY</u> (Budget Need)
I. <u>IMPROVE INCOME</u>		
<u>Farm Loan Programs</u>		
1. Ownership		
2. Management Improvement		
3. Administrative Expenses for Loans		
<u>Non-Farm Enterprise Loan Program</u>		
II. <u>INCREASE FOOD & AGRICULTURAL PRODUCTION</u>		
<u>Food Grain Production</u>		
1. Area Sown		
2. Seed Distribution		
3. Fertilizer Distribution		
4. Agricultural Implements Introduced		
5. Pesticides & Insecticides Used		
6. Agricultural Input Loans		
<u>Livestock Development</u>		
1. Dairy Herd		
2. Draft Animal		
3. Poultry & Egg		
4. Sheep		
<u>Horticultural Improvement</u>		
1. Fruit Tree		
2. Vegetable		

Fishery DevelopmentAnimal & Pest ControlWater Conservation & DevelopmentProduction Efficiency Research

1. Genetic & Varietal Improvement
2. Improved Management Practices
3. Improved Agricultural Engineering
4. Livestock Improvement
5. Input-output Relatives
6. Soil & Water Conservation

Transferring of Production Information

1. Dissemination of Printed Material
2. Training for Farmers
3. Field Days & Farm Demonstration

III. FOOD MARKETING & DISTRIBUTIONFood Product Processing

1. Slaughter House Development
2. Carcass Utilization
3. Commercial Fishery, etc.
4. Fruit & Vegetable

Product Grading & Inspection

1. Food Grain Testing
2. Markets & Products Inspection

Market NewsExport Market Development

IV. FOOD & NUTRITIONNutritional ImprovementFood DistributionDissemination of InformationV. COMMUNITY DEVELOPMENT SERVICESRural Youth ProgramsFamily Living ImprovementResettlement Assistance

1. Projects

2. Financial Aid

VI. AGRICULTURAL EDUCATIONProfessional Training

1. Fields

Non-Professional Training

1. JT & JTA Trained

2. Training Material Developed

VII. GENERAL ADMINISTRATION & PROGRAM SUPPORTProgram Policy DirectionBudgetary & Financial ManagementGeneral OperationsProduction AdministrationEducation & Information Dissemination

May 7, 1970

Exhibit No. 4

FORMAT FOR RECONCILING REVISED PROGRAM CATEGORIES
TO HMC MINISTRY OF FOOD & AGRICULTURE BUDGET HEADS

FY

Amounts 000's N.R.

Program Categories	Budget Head Numerical Designations									
Farm Loan Program										
Non-Farm Loan Program										
Food Grain Production										
Livestock Development										
Horticultural Improvement										
Fishery Development										
Animal & Pest Control										
Water Conservation & Improvement										
Production Efficiency Research										
Trans Production Information										
Food Production Procurement										
Production Grading & Inspection										
Market News										
Experimental Market Development										
Nutritional Improvement										
Food Distribution										
Rural Youth Program										
Resettlement Assistance										
Professional Training										
Non-Professional Training										
Program Policy & Direction										
Budget & Finance Management										
Departmental Operations										
Production Administration										
Education & Information										

Exhibit No. 5

HMG PROGRAM CATEGORY PROTECTION FORM

Project Category Description	Ministry	Budget	Head	Sub-Head	Category	Legislative Status		Date
						Authorized	Proposed	
	Past Year	Current Year	Budget Year	Year (BY)	BY + 1	BY + 2	BY + 3	BY + 4
Principal Outputs:								
Inputs:								
Program Costs								
Regular Development								
Foreign Aid								
Construction Costs								
Regular Development								
Foreign Aid								
Positions Required								
To be Employed								
In Training								

HMG MINISTRY OF FOOD & AGRICULTURE

REPORT ON THE STATUS OF ~~_____~~ - QUARTERS REQUESTS

Department	HEG FUND RELEASES			FOREIGN AID FUND RELEASES			
	Received by Secretary	Forwarded to Budget & Implementation	Slip & Funds Received	Request to Foreign Aid Division	Forwarded to AID Donor	Request Approved by Donor	Funds Received by Ministry of Food & Agriculture
Budget Sub-Head							

HMC DEVELOPMENT BUDGET

FY 19

Item #	HMC/N Budget Needs					
1.	Salary					
2	Allowances					
3.	Travel Allowance & Daily Allowance					
4.	Service					
5	Rent					
6.	Repair & Maintenance					
	6.1 Wages	-----	-----	-----	-----	-----
	6.2 Tools & Spare Parts					
7.	Expendable goods (consumed over a period of year)					
	7.1 Office Equipment	-----	-----	-----	-----	-----
	7.2 Books Newspaper and Journals	-----	-----	-----	-----	-----
	7.3 Fuel	-----	-----	-----	-----	-----
	7.3.1 For Transportation	-----	-----	-----	-----	-----
	7.3.2 For Other Purposes	-----	-----	-----	-----	-----
	7.4 Clothes & Food Grain	-----	-----	-----	-----	-----
	7.5 Other Goods					
8.	Grants-in-Aids & Other Contributions					
9.	Unforeseen					
10.	Non-Expendable (used more than a period of year)					
	10.1 Furniture	-----	-----	-----	-----	-----
	10.2 Transportation Devices	-----	-----	-----	-----	-----
	10.3 Tools & Machinery					
11.	Land & Purchase of Building					
	11.1 Purchase of Land	-----	-----	-----	-----	-----
	11.2 Purchase of Building					
12.	Construction & Renovation					
	12.1 Building Construction and Renovation	-----	-----	-----	-----	-----
	12. 12.1.1 Wages	-----	-----	-----	-----	-----
	12.1.2 Materials	-----	-----	-----	-----	-----
	12.2 Other Construction and Renovation	-----	-----	-----	-----	-----
	12.2.1 Wages	-----	-----	-----	-----	-----
	12.2.2 Materials					
	Total					

HMG MINISTRY OF FOOD & AGRICULTURE
REPORT ON PROGRAM PERFORMANCE & FINANCIAL PROGRESS

Budget Category _____ Quarter Report _____ Department _____, Sub-head _____

	HMG BUDGET			FOREIGN ASSISTANCE			Remarks
	Personnel	All other	Construc- tion	Personnel	All other	Construc- tion	
Financial Plan							
Budget Amount							
Expenditure thru last quarter							
Cumulative Allotment							
This Request							
Work Plan	Identify key targets per sub-head projects						
<u>Targets</u>							
Budgeted							
Total Accomplished							
Last Quarter							
Manpower Utilization	By grouping shown in budget request						

Positions in budget

Approved by Department of Administrative
Management

Filled, as of last
quarter

Seminar
on
Program Budgeting
in the US Department of Agriculture
by
George Waldman
Program Budget Advisor
HMG Ministry of Food & Agriculture

May 10, 1970

In my presentation, I will try to outline the USDA approach to Program Budgeting not because we have so much to teach you, but rather by sharing some of our experiences you might see that your problems and frustrations with Program Budgeting are not unique.

In the USDA, and the US Federal Government, we identify the activity as Program, Planning, Budgeting System (PPBS), with a great deal of emphasis on the "S" in PPBS. By this we hope, PPBS is a system to make decisions, primarily public policy and resource allocation decisions, on a systematic basis.

At this point the usual response or question that arises is that these decisions are made at a much higher level - I disagree, because it seems to me that decisions or choices are made at every operating level. Certainly this becomes obvious to you gentlemen, operating as Department heads - where your main activity is the manipulation of resources to achieve certain objectives or targets. Perhaps we prefer the term manager, rather than manipulator. In either case what we have to do is work within the system which is primarily a tool to help us succeed in our endeavors. But it seems to me that success is largely dependent upon our understanding the system, learning to work with it, and if you are a successful bureaucratic, making it work for you. PPB is not an attempt to centralize decision making.

What is PPBS ? it is a system comprised of interrelated management operations each contributing to the end purpose of the system - which are improved program planning and budget decisions. These components are interrelated and can be envisioned as an unending circle with each phase providing feed-back to the others.

The operations are:

Multi-Year Planning

Programming

Budget Formulation

Budget Execution

Progress Reporting

Auditing & Program Appraisal

Most of these steps are familiar. All bureaucrats have been preparing budgets, getting them approved, carrying them out, reporting on results and submitting somewhat apprehensively to auditors' scrutiny.

In the USDA we have carried out analysis of planning activities before PPBS, as a part of our overall program management operation. Then, what's new in the USDA efforts?

First - We have attempted to redefine our departmental activities in a comprehensive, program oriented planning framework focusing on the major problems to be solved rather than resources being used; identifications by purpose rather than organizational entity; output, rather than input oriented.

Second - "Applications of systematic analysis to the public programs." Many people assume that this only means dependence upon quantitative or system analysis, e.g., using statistics, mathematics, economics. This is not so. Certainly not everything is or can be reduced to numbers. In our analysis we try to recognize policy and social considerations. However, where numbers are relevant they should be used because they help make better decisions.

Third - Extension of our analysis, policy making and budgeting time horizon over a multi-year, rather than the one-year, which was the approach under conventional budgeting.

And finally - revised and improved information systems to provide a better basis for analysis, evaluating program performance and decision making which is continually going on.

In other words PPBS was developed to correct certain deficiencies in our previous planning and budgeting approach, e.g.:

- a. Emphasis on resources consumed rather than problems to be solved.
- b. Short time horizons which emphasized first order costs and effects.
- c. Failure to apply existing analytic techniques to public programs.

We found that the shift in focus under PPBS, from organization to purpose, presents bureaucrats with the greatest transitional problem. We are used to thinking about and managing activities on an organizational basis. Research, credit, soil and water management, education and extension-- as you see, the USDA and the Ministry Food and Agriculture are similarly organized.

Functional organization has many advantages for management: recruiting, training, manpower utilization, supervision, and control.

However, the most efficient way to do a job is not necessarily the best way to decide what should be done. Public problems no longer coincide with traditional organizational boundaries.

Therefore, our planning focus must be in terms of the problems to be solved and the measures or successes of our efforts (outputs). In the past, focus was on inputs, resources consumed. These are more easily measured and

accounted for but they don't describe results. On the other hand, output measures are more meaningful, but also more difficult to define and measure. Accounting systems have been designed primarily to hold bureaucrats responsible for use of inputs. Accountants rarely try to measure or evaluate outputs or successes of government enterprises. However, you must understand that we don't propose to eliminate consideration and management of input resources (funds, people, equipment). This would be extremely foolhardy since government resources are limited, never enough to satisfy the total bureaucrats' requests. What I do suggest however, is that if you hope to be successful in your request for a share of these resources you will have to marshal your requests in terms which demonstrate that your proposals provide a more cost effective solution to the problems government is trying to solve.

The formal extension of time horizons for PPBS is another key feature of the USDA PPBS. In conventional budgeting systems, the annual year considerations fail to identify and highlight the costs and consequences of proposals. In some instances this can be beneficial to a new program proposal, especially one with low start up costs. Obviously, however, the planner is at a disadvantage if he is unable to assess the effects of his decision on future years' programs. Programs with long lead time between consumption of inputs and production of outputs are seriously disadvantaged by short planning horizons. Current year investments in research, water resource development, etc., cannot be justified in terms of next year's outputs. Furthermore, if your planning strategies are guided by long range development plans, it makes sense to plan and budget on the same basis.

The significance of these considerations only becomes meaningful when it is integrating in a process of systematic analysis which:

1. Begins to clarify goals and objectives
2. Tries to establish criteria of effectiveness for evaluating solutions
3. Searches for alternative means of meeting goals and objectives
4. Evaluates the alternative and performance in terms of explicit criteria related to the specified goals.

USDA PROGRAM STRUCTURE

In launching the PPB system in 1965, the first thing we had to do was establish a comprehensive planning framework--the Program Structure. Previously, under the conventional budget classifications used, each agency (comparable to your Department) had its own goals and a distinctive set of budgetary program projects. Though we recognized that many agency activities were similar or contributed to other agencies' activities, no effort was made to systematically relate them to a common planning framework.

There was no attempt to establish an overall Department-wide set of related goals and objectives applicable to all agency activities.

The PPBS program structure attempts to overcome this deficiency by relating each agency's common goals and objectives that it shares with the other agencies. The task of designing the program structure and, of course, the associated output measures was one of the most difficult assignments under the PPBS.

Our system is basically a mission-oriented structure including some 17 basic program packages--or Program Categories. Some

of these are:

FARM INCOME

AGRICULTURAL PRODUCTION CAPACITY

AGR MKTG & DIST.

FOOD & NUTRITION

COMMUNITY DEVELOPMENT SERVICE

PUBLIC FACTORY & BUSINESS

RESOURCE PROTECTION

GENERAL ADMIN

PROGRAM SUPPORT

These major program categories are broken down into 170 program elements, which are the basic planning increments each related to specific identifiable bundles of resources and financial sources. Actually, in some instances, we find it desirable to break our elements into sub-elements, possibly identifying commodities or target groups (beneficiaries).

Under this system, activities such as research or extension are treated as means to ends rather than ends in themselves and components of these activities can be distributed among the major planning categories.

Because many of our activities are carried out in cooperation with or have similar objectives to other governmental institutions, we try to develop compatible program planning frameworks. Certainly, you are faced with this situation especially in the fields of agribusiness credit, water resources mgt, etc.

The second weakness of conventional budgeting was short time horizon of the annual budget. In our PPBS we plan our programs - on an element basis - over a multi-year period. Our Program and Financial Plan (PFP) identifies quantitative output targets by years and relates them to resources required to achieve these targets which are perfected over a five year period--the budget year, plus four more. Therefore, planning and budgeting can be handled as a continuous process. By updating subsequent years' budgets to reflect new policies, progress achieved and other considerations, you have next year's budget before you. For example, last May we began to work on our FY 1971-75 PFP scheduled to begin next July 1 (our cycle is much longer than yours). While congressional hearings are now being held on the FY 1971 budget, we are probably beginning to work on the FY 1972-76 PFP.

A few words on the third major change introduced by PPBS - greater emphasis on systematic analysis. The quantitative techniques have been used before, but PPBS has permitted us to develop program strategies involving the selection and levels of program activities, taking into consideration the grouping that will yield maximum benefits to selected target groups within given budget levels or at minimum costs (which are separate questions

Program planning mechanism, as organized in the USDA, is a Department-wide activity with participation at all levels. When the system was launched, the Secretary directed each of the larger agencies to establish a full time analytic staff. At the same time, he established a central staff called the Planning Evaluation and Programming Staff (PEPS).

The program agencies develop the planning proposals and special evaluation studies. They submit the proposed multi-year PFP thru the PEPS for secretarial level consideration and decision, where the agency proposals are reviewed, modified, and approved for submission to the President and Congress.

Program Implementation

Of course the PPBS is not solely concerned with development of program plans and budgets. The follow-through or implementation provides the program pay-off. Carrying them out is primarily the responsibility of the agency heads - on delegation from the Secretary.

While the Secretary does not directly implement program, he is responsible for seeing that they are operating effectively. To discharge this responsibility, he needs information on the levels and quality of agency performance. This includes an assessment of the success in achieving goals or targets, i.e., the outputs related to resources or inputs used.

We established a reporting system called Project Attainment Reporting System (PARS) which was initially an output reporting system. Now we are integrating resource or financial reporting to give the Secretary an overall assessment of outputs produced, related to use of resources provided.

In conclusion, I do not want to leave you with the impression that the system is operating smoothly. We have our problems and weaknesses. But, I can say, it has been used for the last four (4) years to make program decisions. We like to think they are better decisions. Not everyone will agree.

We still have many problems, but the major considerations are how to improve the system, and how can we make it work.

Thank you..

May 11, 1970

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